

RUSSIAN GRAIN MARKET: RECORDS IN 2013–2014 MY AND NEW SEASON PROSPECTS

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High volumes of grain production in 2013, the devaluation of the national currency and concerns about likely disruptions in grain supplies from Ukraine allowed Russia to increase its grain export volumes in the period of 2013–2014 MY¹ and achieve the second highest result after record-high supply volumes in 2011–2012 MY. Grain export proceeds encourage large exporters to invest available resources in the market infrastructure and strengthening the country's export potential. Russia by 2023 may improve its world ranking to 3rd (from 6th) among the largest grain exporters, according to the data provided by international analysis agencies.

Based on the results obtained in 2013–2014 MY, Russia was ranked 5th among the major grain producers and 6th among the major grain exporters. Feed corn unexpectedly became most demanded in the Russian grain market in that period, corn production and exports reached record levels in the country. As a result, Russia improved its ranking to 5th (from 9th in 2011) among the major corn exporters in the global market².

The elapsed season of 2013–2014 MY (July 2013 to June 2014) can be regarded successful in general for Russian grain crops companies. The 2013 crop of grains and beans was better than that in 2012, 92,4 million tons against 70,5 million tons. However the record of 2008, when Russia's crop reached 108,2 million tons, still remains unbeaten.

Grain exports in 2013–2014 MY was fairly high for such indicators as gross production (about 26 million tons), more than 60% above the value obtained in the previous season. It is the grade of grain that was the major problem faced by the sector in the given season.

Following listed are the key factors which had an impact on price trends in the food and feed wheat market in the elapsed season:

Active exports of wheat throughout the entire season, thus taking the demand out of all proportion to the supply of wheat in the domestic market.

Despite a fairly high gross production, the 2013-crop wheat supplied in the market appeared to be of lower grade, having a substantial impact on prices, – prices of higher grade feed wheat complying with the all-Union State Standard (GOST) requirements appeared to be often equal to the prices of 4th grade food wheat.

Problems of making large amounts of grain were noted due to limited quantities of higher grade food wheat. Agricultural producers kept down sales of large amounts of grain with a view to selling at a higher price while buyers were ready to purchase such amounts of

grain not only from the nearest regions but also other regions, thus paying more for the delivery.

The devaluation of the ruble together with mounting grain prices worldwide further encouraged grain exports, thus limiting the supply in the domestic market, leading to higher prices.

The tension in the Black Sea region, namely the unstable political situation in Ukraine, raised concerns about problems with exports of Ukrainian grains. This pushed up grain prices in the global market in H1 2014.

Wheat prices increased driven by these factors throughout the entire elapsed season, especially the second half of 2013–2014 MY, which is not typical of traditional price movements in the grain market, because prices were supposed to fall driven by seasonal factors since the beginning of the year. Wheat prices increased by an average of more than 2000 rubles per ton during the period between February and April 2014. Prices remained at a fairly high level by the end of the season, which is very unusual, summarizing the results of the past few years. The domestic market saw high prices and lack of supply until the end of the season.

As a rule, the development of grain exports was governed by external trends worldwide. The export geography widened in the elapsed season as the number of countries which purchase Russian wheat increased. Large supplies were exported to the Republic of South Africa, Sudan, Mozambique, Peru, Mexico, Indonesia, Nigeria. Traditionally, the main destinations of wheat supplies were Egypt (19.5% of wheat exports), Turkey (18.1%)³, as well as other Mediterranean and Middle East countries.

Export supply prices of food wheat varied within a range of 250–253 USD per ton (FOB) early in 2013–2014 MY. Supply prices reached 282 USD per ton (FOB)⁴ by the end of the season (June 2014). Exported companies' purchase and sale activity was high

1 MY stands for marketing year.

2 Based on the data provided by the USDA.

3 Based on the data provided by the SovEcon Center.

4 Based on the data provided by APK Inform Information Agency.

while importing countries kept a steady interest in the Russian wheat almost throughout the entire season.

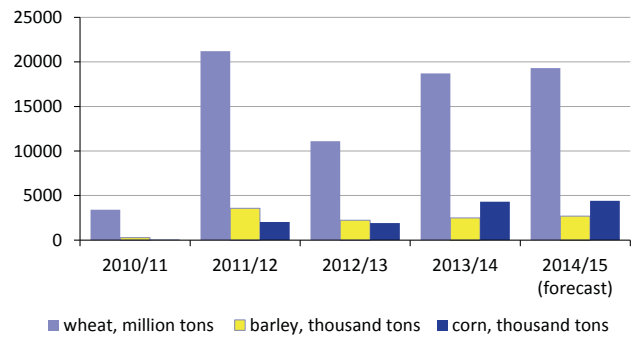
In the elapsed season large businesses tended markedly to monopolize Russia's export of basic grains and beans such as wheat, barley, corn, while small-sized companies switched to supplies of niche grains (rye, oats, sorghum, buckwheat, chick pea, pea). The foregoing is supported by the fact that large exporters began to take interest in investment in deep water transshipment capacities. For example, Cargill acquired an interest in a terminal of the Novorossiysk Commercial Sea Port. Louis Dreyfus jointly with Tamaneftgaz announced about construction of a large grain port in Taman.

Additionally, OAO United Grain Company, Russia's state grain trader, plans to invest in logistics in the grain market. The company announced that it will invest in a shallow port of 1 million tons capacity in the Azov-Black Sea region. The capacities of the grain terminal in Novorossiysk (3 to 6 million tons) are expected to be enhanced. Furthermore, the company has plans to establish a railway company with a fleet of 2,000 railway grain cars.

The barley market saw no serious price movements driven by the foregoing factors which had an impact on the wheat market. In 2013-2014 MY, the grade of barley gave no reason for criticism by the market operators, and the supply was sufficient enough. Consequently, prices of barley remained relatively stable in the elapsed season. Traditionally, the Mediterranean and Middle East countries remained within the barley sales geography. Exports to Saudi Arabia accounted for 56% of total barley exports¹.

In 2013-2014 MY, Russia reached record high 4,3 million tons of corn exports (*Fig. 1*) determined by large volumes of gross production (11,6 million tons) at year-end 2013. Turkey was the key buyer of Russian corn (23% of total exports). intensive supplies of corn to South Korea (20% of exports) appeared to be a new trend of the season². However, the corn supplied in the market was of lower grade due to adverse weather conditions in the European part of Russia during the 2013 harvest campaign. The season of 2013-2014 saw a high demand for corn not only from exporting companies, but also in the domestic market from grain processing enterprises which opted to purchase corn amid the lack of supply and high prices of feed wheat.

Both the domestic and export feed corn markets experienced a price rise since the beginning of 2014. For example, supply prices from export-led companies



Source: APK Inform Information Agency.

Fig. 1. Dynamics of Russia's export of wheat, barley, corn

increased to 242 USD/ton (FOB) in May 2014 from 195 USD/ton (FOB) in September 2013³.

Heavy demand for the Russian corn in the global market and favorable price movement in the market will foster expansion of the cultivated corn area in 2014, up to 2,7–2,8 million hectares, nearly 10% above the area size in 2013⁴.

What are the projections of gross production and export of grains for the new season of 2014-2015 MY? According to the preliminary data from *APK Inform* Information Agency, gross production grains and beans may reach 93,6 million tons in 2014 (+1.3% by 2013). Furthermore, wheat production is anticipated to remain almost at the level observed in the previous year (52,0 million tons), barley production increase to 16,0 million tons (+4.1%), and corn crop may establish a new record of 11,8 million tons (+1.8%) through the expansion of the cultivated corn area. In the new season the grain export potential will outstrip in general and by basic grains the values observed in the period of 2013-2014 MY (*Table 1*).

According to the forecasts made by the USDA (U.S. Department of Agriculture), Russia will be ranked 4th, after the European Union, China and India, among the major wheat producers, and 2nd, after the European Union, among the major barley producers.

In the new season the demand for Russian grains in the global market will be supported by geopolitical factors. The turbulent political situation in Iraq raises a concern of country's failure to harvest its crop in full, which might boost grain exports from the Black Sea region. However, this factor will be insignificant, because Iraq has recently ceased to be the major wheat buyer in the Black Sea region. There is another factor which

³ Based on the data provided by APK Inform Information Agency.

⁴ А. Сизов. Зерновой рынок: принципы функционирования усложняются. Ежемесячный информационно-аналитический журнал «АПК-Информ», № 1, июль 2014 г. [A. Sizov. Grain market: operation principles to complicate. *APK Inform*, a monthly information and analysis journal, No. 1, July 2014.]

¹ Based on the data provided by the SovEcon Center.

² Based on the data provided by the SovEcon Center.

Table 1

RUSSIA: PRODUCTION AND DISTRIBUTION OF GRAINS, MILLION TONS

	Grains and beans		Wheat		Barley		Corn	
	2013 -2014	2014 -2015	2013 -2014	2014 -2015	2013-2014	2014-2015	2013-2014	2014-2015
Gross production	92.4	93.6	52.1	52.0	15.4	16.0	11.6	11.8
Domestic consumption	66.7	67.5	34.0	34.1	13.2	13.4	7.4	7.5
Exports	26.0	27.3	18.7	19.3	2.5	2.7	4.3	4.4

Source: APK Inform Information Agency.

Table 2

GRAIN PRODUCTION WORLDWIDE IN 2014-2015 MY

Wheat			Barley			Corn		
	thousand tons	%		thousand tons	%		thousand tons	%
Total	701621 (-1.7%)*	100	Total	131008 (-9.7%)*	100	Total	981123 (-0.01%)*	100
EC-28	146250	21	EC-28	55884	43	USA	353965	36
China	124000	18	Russia	16000	12	China	220000	22
India	95850	14	Australia	8100	6	Brazil	74000	8
Russia	53000	8	Canada	7200	5	EC-28	65247	7
USA	52847	8	Ukraine	7000	5	Ukraine	27000	3
Others	229674	33	Others	36824	28	Others	240911	25

Note: The USDA forecasts for wheat crop in Russia in 2014 – 53 million tons. This is a bit more than the forecasts made by APK Inform Information Agency.

* as a percentage of 2013-2014 MY.

Source: based on the data provided by the USDA.

is associated with the tense situation in Ukraine (an integral part of the entire market of the states of the Black Sea region) which may reduce Ukrainian export supplies of grain. In 2013, Ukraine had a record grain crop of 63 million tons, of which 32,4 million tons were exported in the period of 2013-2014 MY. In 2014, gross production is anticipated at a level of 57 million tons and export supplies of grain will therefore be reduced¹.

According to the joint forecast of the Food and Agriculture Organization of the United Nations (UNFAO) and the Organization for Economic Cooperation and Development (OECD), Russia may be ranked 3rd in the volume of grain exports worldwide by 2023, thus leaving behind EC member countries and Australia. The United States will keep holding leading positions in grain exports in the global market. ●

¹ Based on the data provided by APK Inform Information Agency.